



**MISSOURI STATE COUNCIL ON THE ARTS**

**From The Office Of State Auditor  
Claire McCaskill**

**Report No. 2003-47  
June 2, 2003  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

# AUDIT REPORT



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

June 2003

**The following areas of concern were noted in our audit of the Missouri State Council on the Arts.**

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The Missouri State Council on the Arts (MAC) has experienced significant reductions in their funding over the last two years and expects to have more reductions in the future. In fiscal year 2002, MAC spent \$1,378,878 (21 percent) less than fiscal year 2001. To continue funding its programs to the extent possible, MAC should ensure all monies are used prudently and wisely.

The Missouri Cultural Trust Fund (Trust Fund) is funded by nonresident professional athletes and entertainers state income taxes transferred from the state's General Revenue Fund, as authorized by state law. The amount transferred into the Trust Fund decreased in fiscal year 2002, and in fiscal year 2003, the state budget does not include any transfers into this fund. In addition, interest earned has decreased. The proposed fiscal year 2004 budget includes no additional transfers to this fund and includes increased appropriations from this fund. As a result, it is imperative for MAC to strictly monitor the use of this money.

One program funded by the Trust Fund is the Capital Incentive Program in which monies are set aside to match equivalent private endowment funds raised by the arts organizations. Grant payments of five percent of the set aside amount are then made to the organization each year. The grant payout rate of five percent is not a reflection of the earnings on the Trust Fund. The contracts with the arts organizations state that the interest or total return earned on the set aside amount will be awarded to the organization. As of December 31, 2002, MAC has earned interest, in total, adequate to cover these payments; however, in 1999 the Council changed the investment strategy of the Trust Fund and began transferring a portion of the balance into the Missouri Investment Trust (MIT). Since that time, approximately \$20 million has been transferred to the MIT and the return on these amounts since inception through December 31, 2002, has been a negative 13.62 percent. In addition, the State Treasurer's average investment yield was 3.6 percent in fiscal year 2002.

The audit report also includes some other matters related to contract terms, meal allowances, lodging expenses, vehicle usage and mileage claims, upon which the Council should consider and take appropriate corrective action.

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YELLOW SHEET

MISSOURI STATE COUNCIL ON THE ARTS

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS .....	4-9
<u>Number</u>	<u>Description</u>
1.	Travel Expenditures .....5
2.	Missouri Cultural Trust Fund .....7
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION .....	10-15
<u>Appendix</u>	
A	Comparative Statement of Appropriations and Expenditures, Years Ended June 30, 2002 and 2001 .....14
B	Comparative Statement of Expenditures (From Appropriations), Years Ended June 30, 2002 and 2001 .....15

## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

Honorable Bob Holden, Governor  
and  
Joseph L. Driskill, Director  
Department of Economic Development  
and  
Missouri State Council on the Arts  
and  
Norree Boyd, Executive Director  
Missouri State Council on the Arts  
St. Louis, MO 63101

We have audited the Missouri State Council on the Arts. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2002 and 2001. The objectives of this audit were to:

1. Review certain management practices and financial information for compliance with applicable constitutional provisions, statutes, regulations, and administrative rules.
2. Review the efficiency and effectiveness of certain management practices.
3. Review certain expenditures made by the Missouri State Council on the Arts.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the Missouri State Council on the Arts.

As part of our audit, we assessed the council's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the council's management and was not subjected to the procedures applied in the audit of the Missouri State Council on the Arts.

The accompanying Management Advisory Report presents our findings arising from our audit of the Missouri State Council on the Arts.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill  
State Auditor

February 7, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Alice M. Fast, CPA
Audit Staff:	Monique Williams, CPA

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

MISSOURI STATE COUNCIL ON THE ARTS  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1.</b>	<b>Travel Expenditures</b>
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The Missouri State Council on the Arts (MAC) has experienced significant reductions in their funding over the last two years and expects to have more reductions in the future. In fiscal year 2002, MAC spent \$5,290,906 or \$1,378,878 (21 percent) less than fiscal year 2001.

To continue funding its programs to the extent possible, MAC should ensure all monies are used prudently and wisely. Although travel expenses are a small part of expenses each year (\$35,847 in 2002 and \$68,710 in 2001), some savings could be achieved in this area.

A. Some travel expenses were excessive or unnecessary and state travel regulations were not followed.

1. We noted instances where the established meal allowances were exceeded and other instances where meals were claimed and reimbursed even though a meal was provided by the agency as a part of a meeting. The Department of Economic Development has established meal limits of \$8.50 for breakfast, \$7.90 for lunch, and \$19.25 for dinner. MAC should only reimburse actual amounts spent up to the maximum meal limit and meals should not be reimbursed if a meal is provided.
2. Although MAC encourages employees and board members to direct bill their lodging expenses and provide tax exempt letters, this is rarely done. We noted many instances where the lodging expenses were paid directly by the staff person or board member and then claimed for reimbursement. As a result, the agency paid sales tax unnecessarily.
3. Expense reports did not always state early departure or late arrival when claiming a breakfast or dinner on the day of departure or return, as required by state travel regulations.

B. We noted concerns regarding vehicle usage and mileage claims.

1. As a result of not requiring employees to use the state-owned vehicles, one of the agency's vehicles was underutilized. MAC has two state-owned vehicles; however, they allow employees to use their private vehicle for convenience even though a state vehicle is available. In these situations, the employees are paid a five percent lower reimbursement rate. During fiscal year 2002, only 9,089 miles were driven on this state-owned vehicle.



According to some benchmarks regarding passenger vehicles in public sector fleets, business use of at least 15,000 miles per year is necessary to justify retention of these vehicles.

2. One employee's expense reports claimed mileage from home to the worksite instead of from the office location to the worksite. This caused the number of miles on state business to be overstated. State travel regulations state, "An officer or employee whose resident city is in some place other than the city of the official domicile shall not be allowed expenses while in such resident city or mileage to travel between the resident city and the city of the official domicile."
3. Vehicle logs kept on the state-owned vehicle predominately used by the Executive Director did not always have an adequate business purpose documented. As a result, we cannot determine if the vehicle was used properly.

For example, in September 2002, two trips taken to various destinations totaling 555 miles each did not have a business purpose documented. Another trip to Jefferson City for 293 miles did not have a purpose noted.

**WE RECOMMEND** the Missouri State Council on the Arts:

- A. Ensure that travel related expenses are reasonable and necessary expenditures and are limited to the expenses incurred in conjunction with official duties. In addition, travel expenses should not exceed the authorized limits and travel regulations should be followed.
- B.1 Require employees to use the state-owned vehicle when available or consider disposing of any under-utilized state-owned vehicles.
- B.2 Ensure mileage is paid in accordance with state regulations.
- B.3 Require the business purpose be stated on the vehicle logs.

**AUDITEE'S RESPONSE**

- A. *MAC concurs with the finding and recommendation regarding meal reimbursement and has instituted an expense review procedure that will account for provided meals versus additional reimbursements. Also, MAC is now subject to CONUS rates which reduces the meal reimbursement in some cities. This is also monitored when expense reimbursements are submitted.*

*MAC agrees with the finding and recommendation regarding sales tax on hotel rooms. MAC has now provided everyone who travels with a tax exempt certificate so that when direct bill is not possible, the employee will not pay sales tax. There has been a problem, however, with council members receiving government rates and sales tax exemption*

*when on government business. The MAC executive director is researching this issue to overcome this problem.*

*Expense reimbursements are being more closely monitored to indicate early departure or late arrival.*

- B.1. MAC is requiring employees to use state vehicles when available.*
- B.2. MAC is monitoring mileage to ensure mileage is recorded from the work site and not from home unless mileage from home is less than that from the work site.*
- B.3. MAC employees will begin giving more explanation as to business use of the vehicle on the vehicle logs. The vehicle logs will be modified to allow for this additional information.*

<b>2.</b>	<b>Missouri Cultural Trust Fund</b>
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The Missouri Cultural Trust Fund (Trust Fund) is funded by nonresident professional athletes and entertainers state income taxes transferred from the state's General Revenue Fund, as authorized by Section 143.183, RSMo 2000. The funds are held in accounts with the State Treasurer's Office and in the Missouri Investment Trust (MIT), as authorized by Section 30.954, RSMo 2000. The following amounts reflect activity in the Trust Fund:

	Year Ended June 30,			
	2002		2001	
	Trust Fund	MIT	Trust Fund	MIT
Beginning balance	\$8,928,801	19,214,197	9,061,274	16,491,389
Transfers from State				
General Revenue	1,737,846	0	5,194,060	0
Transfers between accounts	0	0	(5,000,000)	5,000,000
Investment gain (loss)	386,677	(2,954,360)	721,500	(2,277,192)
Expenditures	(820,117)	0	(1,048,033)	0
Ending balance	\$10,233,207	16,259,837	8,928,801	19,214,197

As reflected in the above numbers, the amount transferred into the Trust Fund decreased in fiscal year 2002, and in fiscal year 2003, the state budget does not include any transfers into this fund. In addition, interest earned has decreased. The Governor's proposed fiscal year 2004 budget includes no additional transfers to this fund and includes increased appropriations from this fund. As a result, it is imperative for MAC to strictly monitor the use of this money.

One program funded by the Trust Fund is the Capital Incentive Program which is designed to promote private dollar donations to arts organizations. Monies are set aside in the Trust Fund to match equivalent private endowment funds raised by the arts organizations. Grant payments of five percent of the set aside amount are then made to the organization each year. At June 30, 2002, the set aside amount totaled over \$11.9 million and, in fiscal year 2002, the Trust Fund provided \$609,739 in annual grant payments to specified projects under the Capital Incentive Program.

- A. We reviewed 13 project files funded by the program in fiscal year 2002, and noted instances in which the grantees did not comply with contract terms.
  - 1. One contract required a grantee to raise \$2.7 million in private funding for the project; however, the grantee raised only \$2.1 million. The award letter also stated they must raise at least \$2.7 million. Although the grant was reduced appropriately to match the amount actually raised, the contract was not amended to agree to these terms. To ensure contracts are valid and all funding requirements are met, any changes to agreements should be documented in an amended contract.
  - 2. Contracts require the grantee to provide a listing of the newly raised funds and the dates of receipt of these funds and an annual audited financial statement. These items were not included in the file for two grants. Without this information, MAC cannot ensure that the required funds were raised and that grant monies were used in accordance with the guidelines.
- B. The grant payout rate of five percent is not a reflection of the earnings on the Trust Fund. The contracts with the arts organizations state that the interest or total return earned on the set aside amount will be awarded to the organization. As of December 31, 2002, MAC has earned interest, in total, adequate to cover these payments; however, in 1999 the Council changed the investment strategy of the Trust Fund and began transferring a portion of the balance into the MIT.

Since that time, approximately \$20 million has been transferred to the MIT and the return on these amounts since inception through December 31, 2002, has been a negative 13.62 percent. In addition, the State Treasurer's average investment yield was 3.6 percent in fiscal year 2002. Due to the change in investment strategy and the current low interest rates, the current payout rate of five percent is no longer a reflection of the earnings of the fund.

On December 13, 2001, MAC decided to change the payout terms under its contract and pay "up to five percent" of the set-aside amount; however, this change is effective for fiscal year 2003 contracts and no decision has been made to amend the old contracts. An adjustment may be necessary to prevent spending of the trust corpus.

**WE RECOMMEND** the Missouri State Council on the Arts:

- A. Ensure grantees comply with all terms and conditions of their contracts and amendments are made when needed.
- B. Consider adjusting the five percent payout rate on the old contracts.

**AUDITEE'S RESPONSE**

- A. *MAC agrees with the recommendation and finding regarding the Cultural Trust contracts. The staff is reviewing all contracts to ensure the terms and conditions are stated accurately. If there is a discrepancy, amendments will be made to the contracts.*
- B. *Because of the current budget situation and economic climate, all contracts are being reviewed for possible amendment restricting earnings distributions to actual earnings, not to exceed five percent. The Missouri Cultural Trust Board will provide on-going review of this issue.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

MISSOURI STATE COUNCIL ON THE ARTS  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The General Assembly created the Missouri State Council on the Arts in 1965 to promote and develop arts and cultural activities in the state. The Omnibus Reorganization Act of 1974 transferred the Missouri State Council on the Arts to the Department of Consumer Affairs, Regulation and Licensing. Effective September 7, 1984, the Department of Consumer Affairs, Regulation and Licensing became the Department of Economic Development as a result of the passage of Constitutional Amendment No. 6 in the August 1984 primary election. In 1993, the state legislature created the Missouri Arts Council Cultural Trust Fund. Subject to appropriation by the Missouri legislature, a portion of the revenue generated by Missouri's nonresident athletes and entertainers income tax is transferred to the Trust Fund annually.

Income on the Trust Fund is used along with state general revenue funds and monies from the federal National Endowment for the Arts to provide funding for programs in all the arts for organizations throughout the state. For most events and services, funding is on a matching basis with local sponsors.

The council is composed of 15 volunteer members appointed from throughout the state to staggered, five-year terms by the Governor, who also designates a chairperson and vice chairperson. In addition, a Cultural Trust Board was created in 1993 by Section 185.100, RSMo 2000, to oversee the operations of the Trust Fund. The Cultural Trust Board members consists of all members of the council, the State Treasurer, two members of the Senate appointed by the Pro Tem of the Senate, and two members of the House of Representatives appointed by the Speaker of the House.

The Council and Cultural Trust Board members and other principal officials as of June 30, 2002, were as follows:

<u>Council &amp; Cultural Trust Board Members</u>	<u>Term Expires</u>
Mary M. McElwain, Chairperson (1)	2004
Betty K. Wilson, Vice Chairperson(2)	2004
Jamie Anderson	2003
Rita Boyd (3)	2006
Cynthia Cartwright (4)	2005
Lois Cason	2003
Norman B. Champ Jr.	2003
June S. Hamra (5)	2002
Karen K. Holland (6)	2002
Dr. Dixie A. Kohn	2005
Bobbie Lurie (7)	2006
Bill McMurray (8)	2004

Adrienne Morgan	2004
Marilyn Silvey Tatlow	2006
Susan Uchitelle (5)	2002

Elected Officials Appointed to the Cultural Trust Board

Senator Roseann Bentley (9)  
 Senator Harry Wiggins (10)  
 Representative Barbara Fraser (11)  
 Representative Charlie Shields (12)

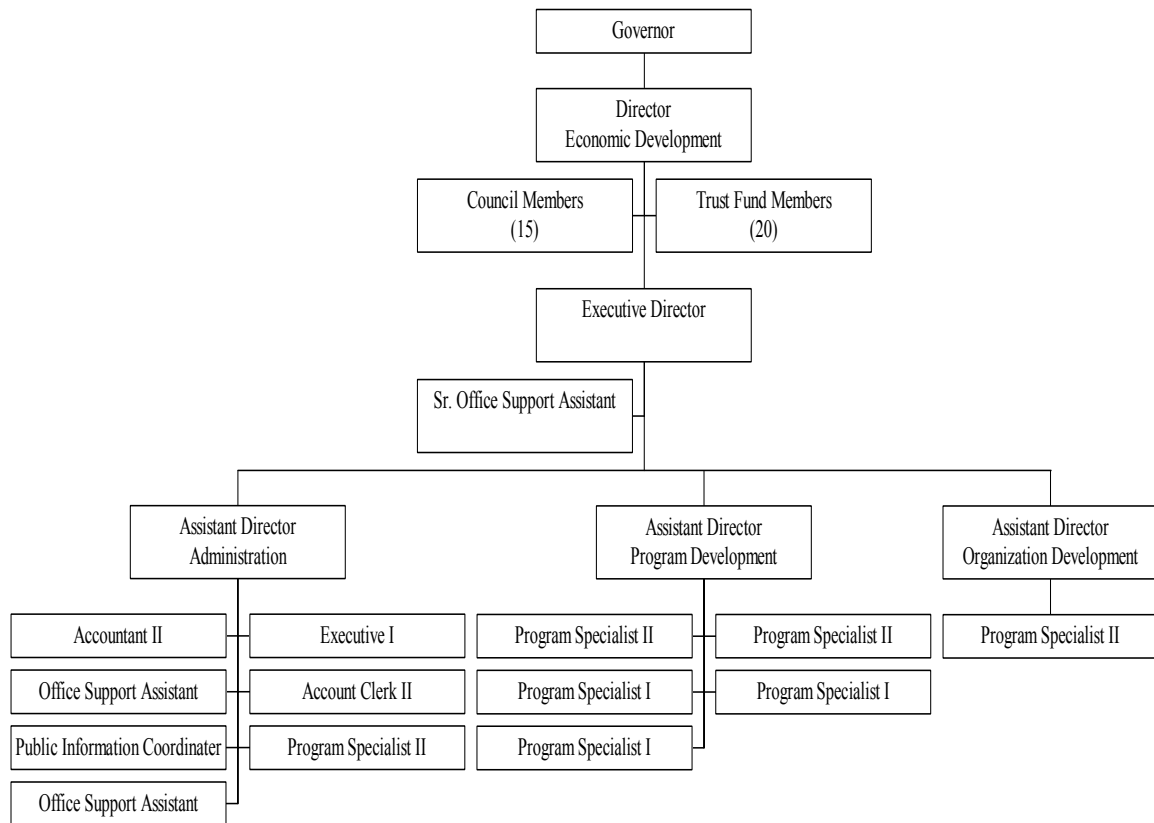
Other Principal Officials

Norree Boyd, Executive Director  
 Beverly Strohmeyer, Assistant Director  
 Linda Schilling, Assistant Director  
 William Meerbott, Assistant Director

- (1) Replaced Karen Holland as Chairperson in September 2001.
- (2) Replaced Mary M. McElwain as Vice Chairperson in September 2001.
- (3) Replaced Renee Hardin Tammons in November 2001.
- (4) Replaced Rhonda Thomas in January 2001.
- (5) Reappointed
- (6) Replaced by Robert Epsten in September 2002.
- (7) Replaced Alice Wray in October 2001.
- (8) Replaced Allan Gray in July 2001.
- (9) Replaced by Senator Maida Coleman upon election.
- (10) Replaced by Senator Charlie Shields upon election.
- (11) Replaced Representative Russell Gunn in April 2001.
- (12) Replaced by Representative Bob Behnen upon election.

The Missouri State Council on the Arts employed 16 full time employees as of June 30, 2002.  
 An organization chart follows:

MISSOURI STATE COUNCIL ON THE ARTS  
 ORGANIZATION CHART  
 JUNE 30, 2002





## Appendix A

### MISSOURI STATE COUNCIL ON THE ARTS COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

		Year Ended June 30,					
		2002			2001		
		Appropriation	Lapsed		Appropriation	Lapsed	
		Authority	Expenditures	Balances	Authority	Expenditures	Balances
GENERAL REVENUE FUND - STATE							
Expense and Equipment	\$	5,242,793	3,604,151	1,638,642	5,269,153	5,015,482	253,671
Humanities Council		300,000	276,000	24,000	300,000	288,090	11,910
Personal Service		344,751	268,086	76,665	342,968	236,611	106,357
Total General Revenue Fund - State		5,887,544	4,148,237	1,739,307	5,912,121	5,540,183	371,938
COUNCIL ON THE ARTS FEDERAL FUND							
Expense and Equipment		699,021	128,267	570,754	699,021	189,884	509,137
Personal Service		253,777	245,279	8,498	252,200	222,894	29,306
Total Council on the Arts Federal Fund		952,798	373,546	579,252	951,221	412,778	538,443
MISSOURI ARTS COUNCIL TRUST FUND							
Expense and Equipment		30,000	29,328	672	30,000	21,301	8,699
Personal Service		89,420	87,739	1,681	89,000	65,205	23,795
Incentives and Technical Assistance		1,241,000	652,056	588,944	841,000	630,318	210,682
Total Missouri Arts Council Trust Fund		1,360,420	769,123	591,297	960,000	716,824	243,176
Total All Funds	\$	8,200,762	5,290,906	2,909,856	7,823,342	6,669,784	1,153,558

The lapsed balances in the General Revenue Fund - State include the following withholdings made at the Governor's request:

		Year Ended June 30,	
		2002	2001
Expense and Equipment	\$	1,638,642	243,186
Humanities Council		24,000	11,910
Personal Service		72,055	105,616
Total	\$	1,734,697	360,712

## Appendix B

### MISSOURI STATE COUNCIL ON THE ARTS COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

		Year Ended June 30,	
		2002	2001
Salaries and Wages	\$	601,105	524,710
Travel Expenditures		35,847	68,710
Supplies		36,992	38,102
Professional Development		15,465	4,589
Communications Services and Supplies		1,542	1,313
Professional Services		259,412	397,996
Maintenance and Repair Expenditures		3,513	3,265
Equipment Expenditures		10,882	31,556
Miscellaneous Expenditures		6,453	15,546
Office of Administration - Phone and Computer		49,414	64,696
Program Distributions		4,270,281	5,519,302
Total Expenditures	\$	5,290,906	6,669,784

\*\*\*\*\*